Brand Finance®



Tobacco 50 50 2017

The annual report on the world's most valuable tobacco brands

March 2017

Foreword



David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be 'to make money'.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but

steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits.

Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance's recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

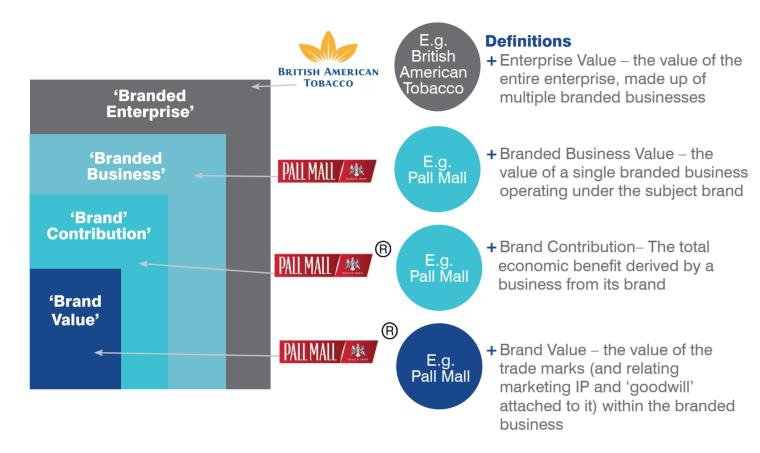
Acknowledging and managing a company's intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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Definitions



Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or 'enterprise value'.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

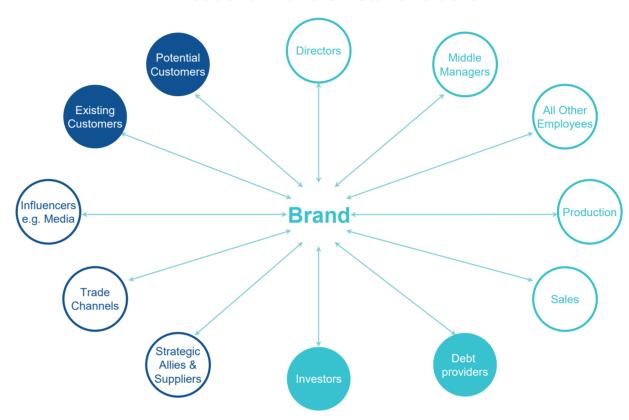
Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike. An assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Effect of a Brand on Stakeholders



Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value".

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

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Methodology

League Table Valuation Methodology

Brand Finance calculates the values of the brands in its league tables using the 'Royalty **Relief approach'.** This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand-assuming it were not already owned.

The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world's largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

Brand strength Brand index 'Royalty rate' (BSI)

Brand investment **Brand** equity **Brand** performance

Brand strength expressed as a BSI score out of 100.



BSI score applied to an appropriate sector royalty rate range.

forecast revenues to derive brand values.

Royalty rate applied to

Forecast revenues

2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable

licensing agreements sourced from Brand Finance's

extensive database of license agreements and other

3 Calculate royalty rate. The brand strength score is

applied to the royalty rate range to arrive at a royalty

rate. For example, if the royalty rate range in a brand's sector is 1-5% and a brand has a brand strength

score of 80 out of 100, then an appropriate royalty

rate for the use of this brand in the given sector will

4 Determine brand specific revenues estimating a

5 Determine forecast brand specific revenues using a

6 Apply the royalty rate to the forecast revenues to

7 Brand revenues are discounted post tax to a net

present value which equals the brand value.

function of historic revenues, equity analyst forecasts

proportion of parent company revenues attributable

online databases.

to a specific brand.

and economic growth rates.

derive brand revenues.

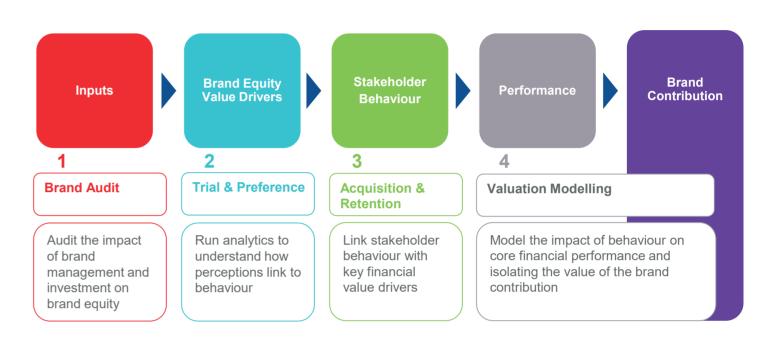
Brand revenues

be 4.2%.

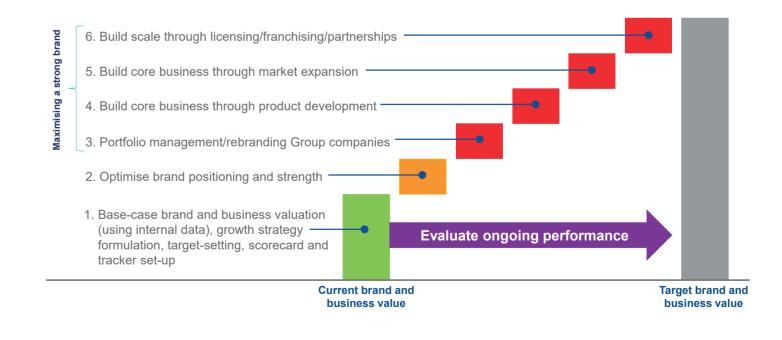
Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

Brand value

Brand Finance Typical Project Approach



How We Help to Maximise Value



Brand Finance Tobacco 50 March 2017 Brand Finance Tobacco 50 March 2017

Executive Summary

Tobacco **50**



Particularly in the last 15 years, an accelerating tide of regulation has swept over the tobacco industry. There are now with significant restrictions on when and where consumers can buy and use cigarettes in most of the OECD and many other However, Marlboro is also successfully extending markets too.

The advent of plain packaging is an even more fundamental threat, putting the very existence of tobacco firms' brands at risk. In its strictest form, it will prevent companies from differentiating themselves and from identifying quality and unique features to consumers. This would ultimately bottom in terms of price and quality.

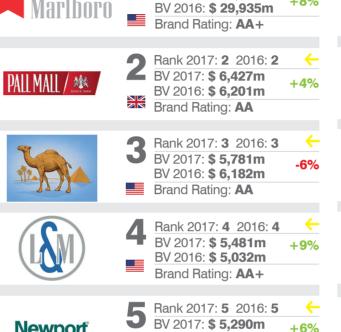
regulation, the world's top tobacco firms are managing to increase the value of their brands. Marlboro, the world's most valuable tobacco brand, has achieved an all-time record brand value of US\$32.4 billion. A decline in Western markets is smoke is a long way off."

being offset by growth in other parts of the world such as China, Indonesia and Africa where regulation remains weaker.

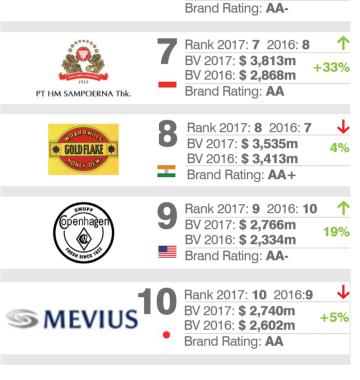
its brand into new products. Many of the major tobacco brands were slow off the mark to embrace e-cigarettes however Marlboro's iQOS system and Heatsticks are now proving hugely popular, demonstrating the brand's power.

Brand Finance's CEO David Haigh comments, "Marlboro's success is by no means an isolated commodify the product, leading to a race to the case, with the brand values of major names such as Pall Mall, L&M, Newport and Winston all growing this year and the likes of Parliament, Sampoerna Yet despite the apparently existential threat of this and Chesterfield enjoying double digit growth. Despite the well-founded health concerns and mounting regulation, the value of these brands for their owners and investors remains robust. The day when the value of tobacco brands goes up in







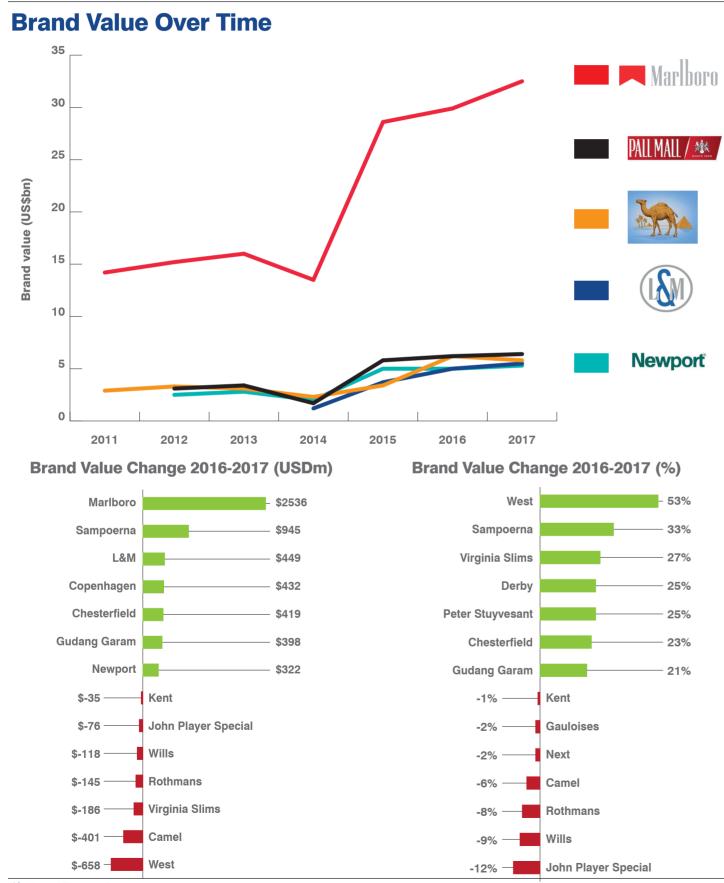


BV 2017: \$ 4.406m BV 2016: **\$ 4.224m**



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Executive Summary



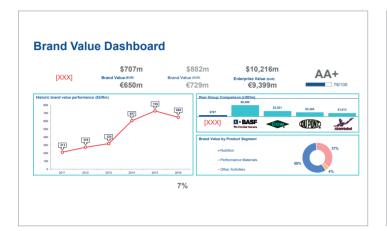
Brand Finance Tobacco 50 (USDm)

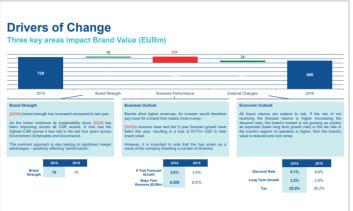
Top 50 most valuable tobacco brands 1 - 50.

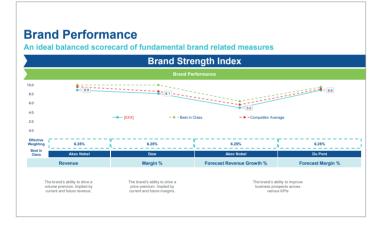
2017	Rank 2016	Brand name	Domicile	Brand value (USDm) 2017	% change	Brand value(USDm) 2016	Brand rating 2017	Brand rating 2016
1	1	Marlboro	United States	32,471	8%	29,935	AA+	AAA-
2	2	Pall Mall	United Kingdom	6,427	4%	6,201	AA	AA
3	3	Camel	United States	5,781	-6%	6,182	AA	AA
4	4	L&M	United States	5,481	9%	5,032	AA+	AA
5	5	Newport	United States	5,290	6%	4,968	AA	AA
6	6	Winston	United States	4,406	4%	4,224	AA-	AA
7	8	Sampoerna	Indonesia	3,813	33%	2,868	AA	AA-
8	7	Gold Flake	India	3,535	4%	3,413	AA+	AA+
9	10	Copenhagen	United States	2,766	19%	2,334	AA-	AA+
10	9	Mevius	Japan	2,740	5%	2,602	AA	AA+
11	13	Parliament	a	<u></u>	₽	a		<u></u>
12	11	Kent	<u> </u>	<u></u>	₽	a		<u></u>
13	15	Gudang Garam	a	<u></u>	₽	<u> </u>	<u></u>	₽
14	16	Chesterfield	a	<u> </u>	<u></u>	<u> </u>	<u> </u>	<u></u>
15	12	Dunhill	<u> </u>	<u> </u>	₽	<u> </u>	<u></u>	<u></u>
16	14	Grizzly	<u> </u>	<u></u>	₽	a	₽	<u></u>
17	19	Philip Morris	<u> </u>	<u> </u>	₽	<u></u>	<u></u>	<u> </u>
18	18	Bond Street	<u> </u>	<u></u>	₽	<u> </u>	₽	<u></u>
19	17	Rothmans	a	<u> </u>	₽	<u> </u>	<u> </u>	<u></u>
20	21	Esse	a	<u></u>	₽	<u></u>	₽	<u> </u>
21	23	Skoal	<u> </u>	<u></u>	<u></u>	<u></u>	<u> </u>	<u> </u>
22	22	Lucky Strike	<u> </u>	<u> </u>	<u></u>	<u></u>	<u> </u>	<u></u>
23	28	Fortune International	<u> </u>	<u> </u>	<u></u>	<u> </u>	<u> </u>	<u></u>
24	26	Viceroy	<u> </u>	<u> </u>	₽	<u> </u>		
25	27	Next	<u> </u>	<u> </u>	<u></u>	<u> </u>	<u> </u>	<u></u>
26	25	Wills	<u> </u>	<u> </u>	<u></u>	<u></u>	<u> </u>	<u></u>
27	32	LD		<u> </u>	<u></u>	<u> </u>	<u> </u>	<u> </u>
28	35	Lark	<u> </u>	<u> </u>	<u></u>	<u> </u>	<u> </u>	<u> </u>
29	34	Dji Sam Soe	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
30	41	Derby	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31	33	Natural American Spirit	Δ	_	<u> </u>	■	<u> </u>	<u> </u>
32	36	Alliance	<u> </u>	<u> </u>	<u> </u>	■	<u> </u>	<u> </u>
33	49 46	Peter Stuyvesant		Δ	<u> </u>	Δ	<u> </u>	<u> </u>
35	31	Morven Gold U Mild			<u> </u>	Δ	■	
36	New	West	<u> </u>	•	<u> </u>	<u> </u>		
37	42	John Player Special	<u>-</u> Ω	<u> </u>		<u> </u>		
38	48	Gauloises	<u>-</u>	<u> </u>	<u> </u>	<u>-</u>		_
39	New	Davidoff	<u> </u>	<u> </u>		<u>-</u>		<u> </u>
40	New	Free	<u> </u>	<u> </u>	<u> </u>	<u>-</u>		_
41	New	Doral	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>
42	40	Virginia Slims	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
43	New	Hollywood	Δ	<u> </u>	<u> </u>	<u> </u>		<u> </u>
44	New	MS	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
45	New	Scissors	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
46	New	Yava	<u> </u>	<u> </u>	<u> </u>	<u> </u>		<u> </u>
47	New	Seven Stars	<u> </u>	<u> </u>		<u> </u>		<u> </u>
48	39	Benson & Hedges	<u> </u>	<u> </u>	_	<u>-</u>		<u> </u>
49	New	Pryluky	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
50	New	Vogue	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Understand Your Brand's Value









A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value.

Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

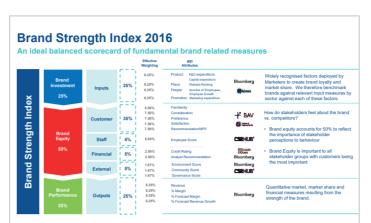
Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

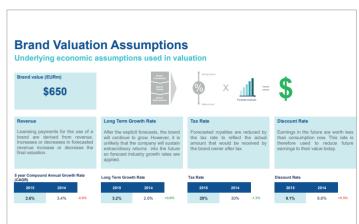
- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

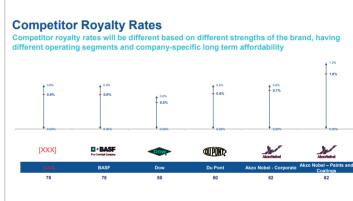
A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking









Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

+ Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports, please contact:

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How we can help

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

- Branded Business Valuation
- Trademark Valuation Brand Contribution
- Intangible Asset Valuation

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers and owners of branded businesses get a better deal by leveraging the value of their intangibles.

- M&A Due Diligence
- Tax & Transfer Pricing
- Franchising & Licensing
- Expert Witness

2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allow an understanding of how brands create bottom-line impact.

- Market Research Analytics Brand Audits

 - Brand Scorecard Tracking Return on Marketing Investment

3. Strategy: How can I increase the value of mv branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities. ensuring resources are allocated to those activities which have the most impact on brand and business value.

- Brand Governance Brand Transition
- Brand Architecture & Portfolio Management
- Brand Positioning & Extension

Brand &

Business Value

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

TAX



We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in-

+ Intangible Asset Valuation

+ Market Research Analytics

+ Brand Contribution

+ Brand Governance

+ Brand Audit

+ Trademark Valuation

FINANCE

We provide financiers and

assessment on all forms of

brand and intangible asset

auditors with an independent

+ Branded Business Valuation + Brand Contribution

MARKETING

We help marketers to connect

performance by evaluating the

return on investment (ROI) of

brand based decisions and

their brands to business

- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit

strategies.

- + Market Research Analytics
- + Brand Scorecard Tracking + Brand Scorecard Tracking
- + Return on Marketing + Return on Marketing Investment Investment + Brand Transition
- + Brand Transition
- + Brand Governance
- + Brand Architecture & + Brand Architecture & Portfolio Management Portfolio Management + Brand Positioning & + Brand Positioning &
 - Extension Extension
- + Mergers, Acquisitions and + Franchising & Licensing Finance Raising Due Diligence
 - + Franchising & Licensing
 - + Tax & Transfer Pricing
 - + Expert Witness

+ Branded Business Valuation + Branded Business Valuation

- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

and outside of the courtroom.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Tax & Transfer Pricing
- + Expert Witness

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The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government

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